



## Insurance Europe general comments EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation

Insurance Europe welcomes the initial review of the Solvency II regulatory framework and supports its main goals, namely:

- to ensure a proportionate and technically consistent supervisory regime for (re)insurance undertakings; and
- to look for possible simplifications in the SCR standard formula and to ensure the proportionate application of the requirements.

Insurance Europe acknowledges the good progress that EIOPA has made towards achieving these goals through its proposals outlined in the first set of advice. However, it believes that additional work is required in a number of areas to achieve an optimal outcome to the review project. For example, Insurance Europe believes that the analysis of the LAC DT does not provide a complete picture of the issues and caution should be used when drawing conclusions from this analysis.

Insurance Europe has provided detailed feedback on the proposals addressed in EIOPA's first set of advice. It further looks forward to working in collaboration with EIOPA, and other stakeholders, on the remaining topics due to be addressed in its second set of advice.

**Simplified Calculations** - Insurance Europe welcomes the simplified approaches that are introduced, which should allow for a wider and more consistent application of proportionality in practice. However, Insurance Europe does not support EIOPA's views on a number of items further detailed in the response. In particular, Insurance Europe believes EIOPA is entitled to address the level of mass lapse risk.

**Reducing reliance on ECAIs in the standard formula** - Insurance Europe welcomes EIOPA's investigations into alternatives for insurers to using nominated ECAIs for supervisory purposes, such as internal credit assessment models and the use of third-party commercial and non-commercial providers. Insurance Europe appreciates the proposed simplification within the remit of Article 88 of the Delegated Regulation. However, Insurance Europe cautions that an overly prudent approach to allowing the use of this simplification may make it not workable in practice.

**Treatment of guarantees, exposure guaranteed by a third-party and exposures to regional governments and local authorities (RGLAs)** - Insurance Europe supports EIOPA's proposed changes, namely:

- Extending the recognition of RLGA guarantees in the spread and concentration risk sub-modules and to Type 2 exposures in the counterparty default risk module.

- Recognising partial guarantees in the context of Type 2 exposures in the counterparty default risk module.
- Recognising RGLA guarantees which are not listed in ITS (EU) 2015/2011 and the associated capital charges.

However, Insurance Europe expresses caution regarding the approach taken to harmonising the list of qualifying RGLAs between the banking and insurance regulations, as this may introduce an overly granular and rigid approach to determining the equivalence between RGLAs and central governments, contrary to the intention of Article 85 of the Delegated Regulation.

Additionally, Insurance Europe supports the spirit of EIOPA's proposed changes to the articles in the Delegated Regulation. However, Insurance Europe suggests changes to the LGD formula, a full exclusion from compliance with Article 215 (f), and the deletion of the last sentence of Recital 42 in the Delegated Regulation to avoid confusion.

**Risk-mitigation techniques** - Insurance Europe supports the proposals put forward by EIOPA to refine the restriction on the replacement frequency of risk-mitigation techniques and to alter the requirements for the partial recognition of risk-mitigation provided by a reinsurer temporarily in breach of the its SCR. However, it believes further work is needed to improve the recognition of Adverse Development Covers and Finite Reinsurance.

**Look-through approach: investment related vehicles** - Insurance Europe welcomes EIOPA's work done on the extension of the look-through approach to related undertakings. It broadly supports the criteria and definition of an "investment related undertaking" proposed by EIOPA. However, additional work is required to ensure that the application of the look-through approach can be implemented in a proportionate manner.

**Undertaking specific parameters** - Insurance Europe remains strongly supportive of the use of USPs which, together with the proportionality principle, are meant to ensure that Solvency II works for all companies, irrespective of their size (SMEs, monoliners). However, despite some improvements proposed by EIOPA, Insurance Europe remains concerned by the restricted scope of USPs in terms of areas of application as currently defined in the Delegated Regulation.

In addition, Insurance Europe is concerned that EIOPA advises against the introduction of new standardised methods and also rejects any amendments to the current data requirements, which are very stringent and thereby are not conducive to a wider use of the USPs.

Insurance Europe strongly believes that the scope of USPs should not be restricted to certain areas, as is currently set out in the Delegated Regulation, but rather expanded to life, health, non-life catastrophe and even operational risk. This enlargement to all areas permitted by the Solvency II Directive is in Insurance Europe's view necessary for Solvency II to be workable for all undertakings regardless of their size, including SMEs/mono liners.



**Loss-absorbing capacity of deferred taxes (LAC DT)** - Insurance Europe notes that the Commission has requested EIOPA to report on the various methods currently applied across Europe with regards to the loss absorbing capacity of deferred taxes (LAC DT) and on their impact. Insurance Europe therefore believes that, by submitting its analysis, EIOPA will have fully delivered on its mandate and no further action is necessary.

Insurance Europe believes a “one size fits all” view on the calculation of LAC DT is not appropriate, and this is demonstrated by the weak correlations in the data analysis by EIOPA. Therefore, Insurance Europe’s view is that standardisation of the calculation of LAC DT is not necessary, nor is any additional guidance required.